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NORTHERN BRANCH

OFFICE OF REPORTS AND ESTIMATES

CENTRAL INTELLIGENCE AGENCY

WORKING PAPER

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NORTHERN BRANCH WEEKLY

Intelligence Summary No. 75 1 August 1949

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Office of Reports and Estimates
Northern Branch

BRITISH DIVISION

UNITED KINGDOM

1. British shaping up new policy on Libya

The Foreign Office, changing direction in its thinking on the Italian colonies question,* now tends to support early independence for Libya with an air of running to meet the inevitable. Aside from varied difficulties as to timing and procedure, however, the carrying out of this nascent policy still faces a major obstacle in the effect it would have on Anglo-French relations. The French remain strongly opposed to Libyan independence because of its anticipated impact on French North Africa; and no result is yet discernible in Paris from British attempts to coax or shock them into accepting an independent Libya as inevitable and making consequent preparations to avoid serious repercussions in North Africa. [redacted] It is difficult to see, however, what compensating concession the British can offer to obtain French cooperation.

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Meanwhile, Foreign Office specialists are studying the subsidiary questions of a more precise date for independence and of the pattern of Libyan unity, inclining on the latter point to a federation of Cyrenaica and Tripolitania but in general favoring the UK's keeping a free hand to decide minor matters as they arise. It is on such questions only that the UK now appears to be giving any serious consideration to Italian Government views, believing that these views are "full of contradictions" and that in particular the recently intimated Italian proposal of independence in six months would set up a much too rapid timetable. There are indications, however, that the British want to keep overt Italian protest to a minimum and, if at all possible, bring Italian influence to bear as a moderating force on the French.

*See NB Weekly No 72, 11 July

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2. Rising prices may set off spate of wage demands

The latest published figures of the retail price and wage indices will make more difficult the Trades' Union Congress' (TUC) efforts to obtain wholehearted support for the Government's stand-still wage policy. The retail price index rose from 109 in April to 111 in June (June 1947 equals 100) while the index of wage rates remained at 108. Since many trade unions only gave support to the Government's wage policy on the understanding that prices would be brought down, there may be renewed demands for wage increases to offset the rise in living costs. So far, there has not been any spectacular advance in wages in 1949, but many unions passed resolutions for increases at their annual summer conferences. At the present time, besides the pending railwaymen's demand, claims for higher wages have been made by bricklayers, teachers, bank workers, post office workers, boot and shoe operatives, shipbuilders and engineers, and civil service workers. In an evident attempt to show its concern over high costs, the Government has cut consumer prices on a few utility items. This is expected to bring little relief, however. Until the TUC can convince the labor rank and file that wage increases can only be justified by greater output per man hour (which is the Government's express policy) there will be discontent and agitation.

3. The dollar deficit in fiscal 1950

Britain's submission on 25 July of a new estimate of its fiscal 1950 deficit should not have surprised the other OEEC countries, except perhaps by its size. The UK delegation had indicated a month before that a revision would be forthcoming.

It is noteworthy, however, that: (a) the revised deficit of $1,578 million, exclusive of ECA aid, is nearly double that originally estimated; (b) it is based on no reduction of the import program, and thus leaves out of account the recent 25% cut; and (c) despite the size, it is substantially below the rate of deficit established during April-June 1949 which, converted to an annual basis, was an alarming $2,400 million. The new estimate therefore may indicate that, in the view of the British Cabinet, the prospects for sterling area exports to the US during fiscal 1950 have deteriorated sharply, the import program can not, to any extent, be revised downward (apart from the temporary 25% cut) without damage to the economy, and the high deficit figure for the second quarter of 1949 does not set a trend or pattern for the next twelve months.

This latest British move in the OEEC, while fully justified, may nevertheless create a crisis atmosphere among the participating countries. OEEC machinery may be severely tested.

4. Anglo-Soviet trade development

The latest development in the current Anglo-Soviet Trade negotiations is a request by the Soviets for 3000 tons of tin, a relatively unimportant amount of a strategic commodity. Tin is presently subject to allocation by the Combined Tin Control, but will probably not remain so after the end of 1949. Thus the British have good grounds for refusing the Soviet demands only until 1950. But they fear that, if the Soviets insist, continued refusal may imperil the whole trade agreement and the coarse grain contract, which involves one million tons of barley, corn and oats.

25X6 [redacted] the situation is a good example of the manner in which the Soviets can apply pressure to obtain strategic commodities. As Britain's economic condition further deteriorates the pressure will become greater and strategically desirable policies of the US could be undermined. 25X6

5. Concern over Anglo-US relations

There is a growing feeling that Anglo-US collaboration is in need of candid review. Responsible British press comment is beginning to express concern over current relations. Britain's deepening dollar crisis, the uncertainty of Congressional approval of the military aid program, and forthcoming Anglo-US-Canadian discussions on future collaboration on the atomic bomb are ruffling the waters of Anglo-US amity at a time when Soviet pressure on Western Europe has been temporarily relaxed.

Failure to agree soon on mutually acceptable Anglo-US economic and military formulae will not fundamentally alter Britain's present foreign policy although it would obviously affect her value as an ally. It would, however, revive British fears of US isolationism and make the UK more obstinate in its dealings with this country.

6. End of operational battleships in peacetime

The Admiralty decision to replace Britain's operational battleships with smaller vessels is the result of strategic and manpower requirements. Operational experience gained during the last war, plus the inevitable postwar manpower shortage, as apparent in recruiting and re-enlistment forecasts, have necessitated a revised naval policy emphasizing light mobile task forces built around carriers, in contrast to the traditional huge battle fleets with their large complements of men. Because of economic recovery priorities and a desire to await results of an intensified research and development program, naval construction since the war has been meager, but concentration on smaller vessels is evident in the launchings which have occurred, and in the scrapping or sale to other countries of large obsolescent ships.

Although the announcement of the policy shift received considerable publicity, little note was taken of its anticlimatic implementation involving, as it does, the transfer of the only currently operational battleship to the Training Squadron. Of Britain's five battleships, two will be used for training, and three will be in reserve, but "at short notice".

COMMONWEALTH & EMPIRE

7. Colonial Africa becomes target of more Soviet activity

The recent stepping up of Radio Moscow's anti-colonial propaganda campaign lends some credence to the belief expressed last week by British West African officials that left-wing nationalists in the Gold Coast are now receiving Communist material and money from sources in the French Ivory Coast, the Belgian Congo and Ethiopia. Up to this time the Gold Coast nationalists' Communist contacts have been estimated as slight and mainly through certain London associates of the Marxist-influenced leader, Kwami Nkrumah. If true, this new report suggests that the USSR, concerned about the growing economic importance of colonial Africa to the West, is becoming more active in fomenting political unrest among Africa's native populations.

8. British count on colonies to help in economic recovery

Measures to raise the level of production in the dependent empire, although of little help in meeting Britain's immediate dollar difficulties, are one of the major hopes of British planners in their efforts to solve the UK's long term payments problem. Despite the large, untapped resources of many of the colonies, however, the amount of money the British Treasury has devoted to colonial development is not great: the total allocations under the Colonial Development and Welfare Act from 1945 to date come to £64 million, which is roughly half the sum the US Government is estimated to have poured into Puerto Rico during the Roosevelt Administration. (Additional funds have, also, been made available through the Colonial Development Corporation, with an authorized borrowing capacity of £110 million, and the Overseas Foods Corporation, with £55 million.) The limiting factor during most of this period has been sterling area scarcities of raw materials, capital goods, and technicians.

The alternative possibility of speeding up the economic development of the colonies by large scale US private investment has, nevertheless, not aroused any marked enthusiasm among UK officials. Though welcoming ECA aid and expressing an interest in limited American private investments, officials have indicated that their main reliance for non-British capital in the colonies is on loans from the International Bank. The probable reasons for this are mixed. Besides the obvious desire to retain profitable investment opportunities for British use and to avoid additional dollar payments difficulties in the future, there seems to be a real concern about the possible social and political consequences of a too swift economic development. Colonial Office spokesmen have more than once emphasized that a more rapid utilization of colonial resources would be possible, but have simultaneously indicated their intention to avoid the sort of unbalanced economic development which has brought "colonialism" into ill repute in much of the world. With the UK's large stake in colonial development, and with sundry native nationalisms already hypersensitive about the "exploitation" of their territories by the white man, the British Government feels that it can not risk the quick profits of uncontrolled colonial investment.

9. Governor's reforms raise storm in the Seychellois teacup.

In the small Seychelles Islands 1000 miles from Africa in the Indian Ocean, the Colonial Office is again* umpiring a

* Cf. WE Weekly No 32, 23 February 1949

feud between a high-minded Governor, intent upon establishing the Labor Party's brand of democratic socialism, and a small white aristocracy 100 years behind the times and in no hurry to catch up. Since his appointment as Governor in 1947 after a distinguished wartime medical career in Hong Kong, Dr. Selwyn-Clarke has (1) introduced a constitution providing for the islands' first popular representation in the Legislative Council, (2) extended social services, (3) shown a determination to eliminate the whites' favorite sport of evading income taxes, and (4) waged a campaign against the strong color bar, even appointing a colored man, Mr. Collet, to high public office as Acting Attorney-General, Legal Adviser to the Inland Revenue Department, and nominated unofficial member of the Legislative Council. The whites, who number 1000 or 3% of the predominantly African and Indian half-caste population of 35,000 are mainly cocoanut plantation owners of French descent and are more tradition-bound than most colonists because of their isolation. They strongly resisted the governor's reforms, particularly the attempts to collect income taxes and lower the color bar and have petitioned London for his recall. Both grievances are personified by Mr. Collet, who has pursued his successive appointments with great zeal [redacted] and has especially exasperated the whites by chasing arrears in income taxes as far back as 25 years. Lately the Governor seems to have restrained the more offensive enthusiasms of Mr. Collet. He has, however, been called to London, presumably to hear the Colonial Secretary's Dutch-uncle talk designed to caution against an overzealous implementation of current Government policy in the colonial backwash of the Seychelles Islands.

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IRELAND

10. Government loses some ground in its second Dail session

The position of the Costello Government at the completion of its second parliamentary session is still fairly secure although less so than a year ago. Tax reductions and slightly increased social services plus a real improvement in Ireland's overall economic situation have favored the Government, despite an only slightly reduced cost of living and unemployment and emigration figures that are still high. But the Republic of Ireland Act and its aftermath have brought about a decline in popular enthusiasm for the Government. This Act, the principal accomplishment of the recently concluded session of the Dail, antagonized pro-Commonwealth elements immediately. The Government later came under fire from other groups who felt that the Act was a tactical blunder in the anti-Partition campaign and that it was the direct cause of the Ireland Bill in the UK, which reaffirmed Partition.

The Parliamentary session opening 26 October may provide more serious threats to the Government's slim majority since the maintenance of harmony among the various parties in the coalition is becoming an increasingly delicate matter. One feature of the last session of the Dail was the Government's tendency to avoid issues that would divide its labor and conservative elements. Some of these questions cannot be put off much longer, and the Government will probably face a real test when the long-promised revision of health and social security legislation comes up for consideration during the next session of the Dail.

NORTH AMERICAN DIVISION

CANADA

1. Canadian plans for Atlantic Pact participation

The Canadian Government is believed to have formulated a plan whereby it can obtain military supplies for the strengthening of its armed forces in consonance with the objectives of the North Atlantic Pact.

Committed to a policy of procuring military supplies from the US by purchase only, but practically prohibited from doing so because of the paucity of US dollars, the government apparently wishes to revive certain of its World War II munitions industries for the production of a portion of its own needs. Since the small-scale armed forces of Canada cannot support a munitions industry, a surplus of production for export to other Pact members would be generated, those countries paying for arms with dollars supplied by the US under its military assistance program. In turn, Canada would use these dollars to purchase military equipment from the US.

The Canadian Ambassador recently informed the State Department that his government is not yet prepared to announce a military assistance program paralleling US plans, but that Canada is fully cognizant of its obligations under Article 3 of the North Atlantic Pact. When the Pact has been ratified and military plans take shape, Canada may be expected to propose its participation in the manner outlined above. Its relatively high level of economy could maintain a reasonable amount of increased armaments manufacture, and US security interests would be enhanced by putting Canada's war-time production facilities in a state of readiness.

SUPPLEMENT

The United Kingdom's dollar imports

The dependence of the UK upon imports from the dollar area remains the most troublesome feature of Britain's post-war economic difficulties. Although other countries, such as Cuba, Mexico and the Dominican Republic, made important contributions, the greatest value of UK's dollar imports in 1948 was from Canada (£ 216.6 million) and the US (£184.4 million).

The following table gives the major British dollar imports for the year 1948 (selected to avoid the seasonal factor reflected in the first half of 1949) and the percentage that dollar imports formed of the total imports within its category.

Major UK Imports in 1948, with the percentage originating from dollar sources

Commodity	Total imported £ million	% from Dollar sources
Machinery	43.8	75
Tobacco	42.8	52
Electrical goods & apparatus	2.6	55
Non-ferrous metals & mfg	38.8	53
Vehicles	11.7	53
Grain & Flour-	201.3	43
Of which Wheat	95.5	71
Wheat Products	25.5	70
Chemicals	31.4	33
Wood & timber	93.2	36
Iron & steel mfg	19.6	35
Non-metalliferous mining and quarry products	16.8	34
Mfg of wood & timber	12.3	27
Miscellaneous food	140.0	26
Of which sugar & molasses	64.0	54
Oils, fats, resins	130.0	23
Paper & cardboard	24.3	22
Cotton yarns & mfg	23.0	20
Raw cotton	100.7	18
Dairy products	132.0	16
Paper making materials	52.3	14
Hides & skins	34.6	13
Meat	125.6	12

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The British Government has announced its intention of cutting dollar imports by $400 million in 1949-50, the chief cuts to be made in tobacco, timber, paper and wood pulp, raw cotton, non-ferrous metals, and sugar. The effect of these cuts on the two main exporters of most of these commodities, namely Canada and the US, and the possibility of developing alternative sources of UK supply, are of interest.

Tobacco: Last year the UK imported £42.[illegible] million worth of tobacco, almost all unmanufactured. Of this total the US supplied over half, with Canada and Cuba making small contributions. Of non-dollar sources Southern Rhodesia, which was the UK's second largest supplier with £3.3 million, Nyasaland, India and Pakistan together with £4.9 million and Greece and Turkey with £1.5 million were the most important. Of these however, only Southern Rhodesia can offer ~~the~~ more popular flue-cured or cigarette tobacco, the remainder supplying tobacco suitable for pipes or blends.

Timber: Of the total of £9[illegible].2 million spent by the UK in 1948 for timber, £[illegible].7 million was paid Canada and £7.0 million the US, for a total of 3[illegible]%, with Russia and Finland accounting for between £13-14 million each, and Germany for £9.8 million. The most important constituent, by value, of the timber group is sawn softwood, necessary to satisfy the UK's housing needs. Of this commodity, with a value of nearly £45 million for 1948, Canada contributed 3[illegible]%, Finland and Sweden between them 40%, and the US 10%. Canada was also the largest supplier of pitprops and sleepers, although Finland was almost as important. In the hardwoods, however, Canada and the US accounted for one third of the total, the balance being supplied by Nigeria, the Gold Coast, Europe and Burma.

Paper and wood pulp: Again the major sources of supply were Canada, Finland, and Sweden, although in this case of the annual total of £5[illegible].2 million, Canada supplied 13% and the US only about 2.5%.

Raw cotton: The US was the only dollar source of raw cotton in 1948 with a contribution of 18% of the total British imports. This comparatively low percentage is somewhat misleading as the US was a heavy supplier of medium staple cotton and cotton linters, both essential to the economic operation of a cotton textile industry. UK imports of medium staple cotton in

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1948 totalled £68.7 million, of which the US supplied £17.5 million or 27%. The two other major sources were Egypt with £23.0 million and Brazil with £11.5 million. (The proportion of US medium staple cotton has risen to 58% in the first five months of 1949). 56% of the total UK imports of cotton linters was US-supplied in 1948 (the percentage has risen in 1949 to 91%).

Non-ferrous metals: The principal source of non-ferrous metals in 1948 was Canada, which provided 38% of the total; the US accounted for 15%, Northern Rhodesia sent 23% and Australia about 12%. The remainder came principally from Belgian Congo, Germany, and Norway. As regards individual metals, Canada supplied virtually all of the aluminum imported; Canada and the US provided about two-thirds of the zinc, with Australia and Belgium the two other principal sources; the US provided about 29% of the electrolitic copper and Canada 27% (Northern Rhodesia, Belgium and the Belgian Congo together supplied about 35%): Australia provided most of the lead, with principal dollar expenditures made in Canada and Mexico.

Sugar: The UK imported £59 million worth of unrefined sugar in 1948, of which nearly £35 million was bought for dollars. Cuba was the largest supplier of dollar sugar with £23.8 million. The chief non-dollar sources of sugar were Australia, the Mauritius, and the British West Indies.

Besides demonstrating the extent of the UK's dependence upon dollar sources for raw materials the above study shows clearly upon whom the brunt of the proposed British dollar import cuts of 25% will chiefly fall. Of the six commodities selected by the UK for reduction in 1949-50 Canada was the main source of supply last year of three -- timber, paper and wood pulp, and non-ferrous metals. The US was the main supplier of two -- raw cotton and tobacco.

Of these items, tobacco is to experience the full 25% cut, but it is unlikely that the imports of raw cotton can be considerably reduced for more than a temporary period during which stocks can be drawn upon without injurious results to the British textile industry. The three Canadian commodities, however, are more easily replaced; rival sources in soft currency areas already exist in the timber and wood pulp industries and, to a lesser extent, in non-ferrous metals. The UK will presumably carefully consider the deleterious effect upon Canadian good-will of diversions from traditional trade relations, but the deepening dollar crisis may force the Government into such acts despite possible consequences.